

**UNITED STATES DISTRICT COURT
DISTRICT OF PUERTO RICO**

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In re:	PROMESA
	Title III
THE FINANCIAL OVERSIGHT AND MANAGEMENT BOARD FOR PUERTO RICO,	
as representative of	No. 17 BK 3283-LTS
THE COMMONWEALTH OF PUERTO RICO, <i>et al.</i> ,	(Jointly Administered)
Debtors. ¹	

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**STATUS REPORT OF FINANCIAL OVERSIGHT AND MANAGEMENT
BOARD REGARDING PROPOSED QUALIFYING MODIFICATION
FOR THE PUERTO RICO PUBLIC FINANCE CORPORATION**

To the Honorable United States District Court Judge Laura Taylor Swain:

The Financial Oversight and Management Board for Puerto Rico (the “Oversight Board”), as sole Title III representative of the Commonwealth of Puerto Rico (the “Commonwealth”) pursuant to section 315(b) of the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”),² respectfully submits this Status Report in connection with the proposed modification of the bonds issued by the Puerto Rico Public Finance Corporation (“PFC”) pursuant to Title VI of PROMESA and in response to this Court’s direction at the June 29, 2022 omnibus hearing, and states as follows:

¹ The Debtors in these Title III Cases, along with each Debtor’s respective Title III case number and the last four (4) digits of each Debtor’s federal tax identification number, as applicable, are the (i) Commonwealth of Puerto Rico (“Commonwealth”) (Bankruptcy Case No. 17-BK-3283-LTS) (Last Four Digits of Federal Tax ID: 3481); (ii) Puerto Rico Sales Tax Financing Corporation (“COFINA”) (Bankruptcy Case No. 17-BK-3284-LTS) (Last Four Digits of Federal Tax ID: 8474); (iii) Puerto Rico Highways and Transportation Authority (“HTA”) (Bankruptcy Case No. 17-BK-3567-LTS) (Last Four Digits of Federal Tax ID: 3808); (iv) Employees Retirement System of the Government of the Commonwealth of Puerto Rico (“ERS”) (Bankruptcy Case No. 17-BK-3566-LTS) (Last Four Digits of Federal Tax ID: 9686); (v) Puerto Rico Electric Power Authority (“PREPA”) (Bankruptcy Case No. 17-BK-4780-LTS) (Last Four Digits of Federal Tax ID: 3747); and (vi) Puerto Rico Public Buildings Authority (“PBA”) (Bankruptcy Case No. 19-BK-5523-LTS) (Last Four Digits of Federal Tax ID: 3801) (Title III case numbers are listed as Bankruptcy Case numbers due to software limitations).

² Capitalized terms used but not otherwise defined herein have the meanings ascribed to them in PROMESA, 48 U.S.C. § 2101 *et seq.*

1. On May 3, 2017, the Oversight Board filed a petition for relief pursuant to Title III of PROMESA for the Commonwealth, commencing the Commonwealth's Title III case. The hearings to consider confirmation of the *Modified Eighth Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* [Case No. 17-BK-3283-LTS, ECF No. 19784]³ (as amended, supplemented, or modified, the "Title III Plan") commenced on November 8, 2021 and concluded on November 23, 2021 (the "Confirmation Hearing").

2. Prior to the Confirmation Hearing, on October 21, 2021, U.S. Bank Trust National Association and U.S. Bank National Association, solely in their capacity as trustee (the "PFC Bond Trustee") for bonds issued by PFC (the "PFC Bonds") pursuant to the Trust Agreement, dated as of June 1, 2004, between PFC and the PFC Bond Trustee (as amended, the "Trust Agreement") filed the *Objection of U.S. Bank, as Trustee for the Puerto Rico Finance Corporation Bonds, to the Seventh Amended Title III Joint Plan of Adjustment of the Commonwealth of Puerto Rico, et al.* [ECF No. 18631] (the "PFC Bond Trustee Objection"), objecting to confirmation of the Title III Plan due to, among other things, the Title III Plan's proposed treatment of claims relating to PFC.

3. Following the filing of the PFC Bond Trustee Objection, the Oversight Board, the Puerto Rico Fiscal Agency and Financial Advisory Authority ("AAFAF"), and the PFC Bond Trustee, on behalf of holders of a majority of the outstanding PFC Bonds, sought to consensually resolve the PFC Bond Trustee Objection.

4. On November 12, 2022, the Oversight Board approved the transactions contemplated pursuant to a proposed term sheet (the "Term Sheet") that provided for the

³ Unless otherwise indicated, ECF numbers cited herein refer to Case No. 17-BK-3283-LTS.

modification of in excess of One Billion Dollars (\$1,000,000,000.00) of claims arising from or related to the PFC Bonds, which terms remained subject to definitive documentation.

5. On November 17, 2022, at the Confirmation Hearing, counsel for the Oversight Board announced that an agreement, subject to certain approvals and definitive documentation, had been reached (i) to resolve the PFC Bond Trustee Objection and (ii) for the terms of a proposed modification of the PFC Bonds. Pursuant to such agreement, and in exchange for the compromises and settlements provided therein, the PFC Bond Trustee Objection was resolved.

6. On November 22, 2022, at the Confirmation Hearing, and, notwithstanding the preliminary nature of the understanding, counsel for the PFC Bond Trustee disclosed the economic terms of the proposed modification of the PFC Bonds, including, among other things, the distribution of “bonds pursuant to the indenture already approved in the GDB Qualifying Modification, in the approximate amount of 47.69 million dollars, to give effect to the PFC Trustee’s claims to GDB in amounts that are already referenced in the GDB Qualifying Modification.” Nov. 22, 2022 Hr’g Tr. at 224:13-:18.

7. On January 20, 2022, following extensive negotiations, the Oversight Board entered into that certain PFC Restructuring Support Agreement (the “PFC RSA”), with (a) AAFAF, on behalf of PFC, and (b) certain holders of PFC Bonds (the “PFC Holders”). The PFC RSA provides for, among other things, (i) the compromise and settlement of unasserted and asserted rights arising from or relating to the PFC Bonds, (ii) the terms for proposed restructuring of the PFC Bonds consistent with the Term Sheet, including (1) the distribution of additional DRA bonds, in the amount of Forty-Seven Million Six Hundred Ninety Thousand Five Hundred Sixty-One Dollars and Sixty Cents (\$47,690,561.60), on account of that certain contingent and unliquidated claim of the PFC Bond Trustee against the GDB in accordance with that certain Bond

Indenture, dated November 29, 2018 (the “DRA Bond Indenture”), by and between the DRA, as issuer, and Wilmington Trust, N.A., as indenture trustee, (2) the right to receive the distribution as a Class 58A Claim in accordance with the terms and provisions of the Title III Plan on account of the allowance of the claim against the Public Entity Trust, and (3) a cash payment in the amount of Twelve Million Five Hundred Thousand Dollars (\$12,500,000.00), and (iii) the agreement of the parties to support the terms of a Qualifying Modification for PFC (the “Qualifying Modification”).⁴

8. Subsequent to the entry into the PFC RSA, as the Oversight Board and AAFAF were preparing for the solicitation and commencement of a Title VI case for the proposed Qualifying Modification, the Oversight Board was informed by AAFAF of a disagreement between (i) the PFC Bond Trustee, and (ii) AmeriNational Community Services, LLC, as servicer for the DRA, and Cantor-Katz Collateral Monitor LLC, a Delaware limited liability company and as collateral monitor for Wilmington Trust, N.A. (together, the “DRA Parties”), regarding the ability of the DRA to distribute additional DRA bonds pursuant to the applicable documents governing the DRA bonds, as contemplated in the PFC RSA.

9. The Oversight Board informed this Court of such disagreement in the *Status Report of Financial Oversight and Management Board in Connection with June 29–30, 2022 Omnibus Hearing* [ECF No. 21377].

10. The Oversight Board, AAFAF and the PFC Bond Trustee (on behalf of parties holding a majority in outstanding principal amount of PFC Bonds) are discussing certain amendments to the PFC RSA that will allow the transaction to move forward in the near-term. It

⁴ Copies of the Term Sheet and PFC RSA are available at <https://emma.msrb.org/P21537507-P21188433-P21606543.pdf>.

is the Oversight Board's goal to complete such discussions and move forward with solicitation of the Qualifying Modification by no later than September 15, 2022.

Dated: August 1, 2022
San Juan, Puerto Rico

Respectfully submitted,

/s/ Brian S. Rosen

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